

## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

### (a) Basis of preparation

- (i) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that non-trading securities are stated at fair value.
- (ii) In the current year, the group adopted the following revised or new Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001 except stated otherwise:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

In the current year, the group early adopted the following revised SSAPs issued by the HKSA which will be effective for accounting periods commencing on or after 1st January 2002 except stated otherwise:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cashflow statement

The effects of adopting these new/revised standards are set out in the accounting policies below.

## 1 Principal accounting policies (Continued)

### (b) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 30th June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation.

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related exchange reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

The merger reserve of the group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.



## **1 Principal accounting policies (Continued)**

### **(c) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

In the company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the company on the basis of dividends received and receivable.

### **(d) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions on or after 1st July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life but not exceeding 20 years.

Goodwill on acquisitions that occurred prior to 1st July 2001 was written off against reserves. The group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31. In accordance with the transitional provisions of SSAP30, where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy has been applied retrospectively and the impairment losses have been recognised as a prior year adjustment. As a result, the group has retrospectively restated and decreased its previously reported net profit for the year ended 30th June 2001 by approximately HK\$26,668,000.

## 1 Principal accounting policies (Continued)

### (e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	20% - 50%
Motor vehicles	20%
Demonstration equipment	33- $\frac{1}{3}$ %

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired.

If any such indication exists, the recoverable amount of the asset is estimated and, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.



## 1 Principal accounting policies (Continued)

### (g) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises invoiced cost of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### (k) Provisions

In accordance with SSAP 28, provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.



## 1 Principal accounting policies (Continued)

### (l) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the accounts. The deferred tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss account of foreign enterprises was translated at closing rates. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

### (n) Revenue recognition

Revenue from the design, sale and implementation of data networking systems and the provision of related engineering services is recognised upon the satisfactory completion of installation, which generally coincides with the time when the systems are delivered to customers.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking account of the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.



## 1 Principal accounting policies (Continued)

### (o) Retirement benefits costs

The subsidiaries of the company in Hong Kong, Macau and the People's Republic of China (the "PRC" (Note)) are required to make contributions for their employees to retirement schemes managed by relevant local authorities in accordance with their rules and regulations. Contributions to these retirement schemes are charged to the profit and loss account in the year in which they are incurred.

Note:

The PRC, for the purposes of these accounts, excludes Hong Kong and Macau.

### (p) Research and development costs

Research and development costs are expensed as incurred, except for where it is expected that the product under development will be profitable and will be produced and its technical feasibility has been demonstrated. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

### (q) Segment reporting

In accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of inventories and operating receivables, and mainly exclude investments in associated companies and non-trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (Note 11) and additions resulting from acquisitions through purchases of subsidiaries and associated companies.

In respect of geographical segment reporting, sales are based on the country in which the works are carried out and services are delivered. Total assets and capital expenditure are where the customers are located.

## 1 Principal accounting policies (Continued)

### (r) Dividends

In accordance with the revised SSAP 9, the group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and the comparatives presented have been restated to conform to the changed policy.

As detailed in note 20, this change has resulted in an increase in opening retained earnings at 1st July 2001 by HK\$12,160,000 which is the reversal of the provision for 2000/2001 final dividend proposed previously recorded as a liability as at 30th June 2001 although not declared until after the balance sheet date. The comparatives have been affected in a similar way.

## 2 Turnover, revenues and segment information

The group is principally engaged in the design, sale and implementation of data networking systems and provision of related engineering services and sale of goods. Revenues recognised during the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Design, sale and implementation of data networking systems and provision of related engineering services	521,582	471,885
Sale of goods	79,526	75,030
	<u>601,108</u>	<u>546,915</u>
Other revenues		
Dividend income	649	686
Interest income	3,588	11,087
	<u>4,237</u>	<u>11,773</u>
Total revenues	<u>605,345</u>	<u>558,688</u>



## 2 Turnover, revenues and segment information (Continued)

### Primary reporting format - business segments

The group is organised into two main business segments:

- Design, sale and implementation of data networking systems and provision of related engineering services
- Sale of goods

There are no sales or other transactions between the business segments.

	<b>Design, sale and implementation of data networking systems and provision of related engineering services 2002 HK\$'000</b>	<b>Sale of goods 2002 HK\$'000</b>	<b>Group 2002 HK\$'000</b>
Turnover	521,582	79,526	601,108
Segment results	69,994	15,931	85,925
Unallocated income			4,237
Unallocated cost			(19,801)
Operating profit			70,361
Finance cost			(173)
Share of losses of associated companies			(876)
Profit before taxation			69,312
Taxation			(10,557)
Profit after taxation			58,755
Minority interests			(1,763)
Profit attributable to shareholders			56,992
Segment assets	275,777	26,392	302,169
Investments in associated companies			6,591
Unallocated assets			243,515
Total assets			552,275
Segment liabilities	86,733	11,732	98,465
Unallocated liabilities			124,774
Total liabilities			223,239
Unallocated capital expenditure			5,743
Unallocated depreciation			2,210
Unallocated impairment charge			1,674
Other non-cash expenses	117	26	143
Unallocated non-cash expenses			2,998

## 2 Turnover, revenues and segment information (Continued)

### Primary reporting format - business segments (Continued)

	Design, sale and implementation of data networking systems and provision of related engineering services 2001 HK\$'000	Sale of goods 2001 HK\$'000	Group 2001 HK\$'000
Turnover	471,885	75,030	546,915
Segment results	84,670	16,366	101,036
Unallocated income			11,773
Unallocated costs			(42,089)
Operating profit			70,720
Finance cost			—
Share of losses of associated companies			(2,155)
Profit before taxation			68,565
Taxation			(14,429)
Profit after taxation			54,136
Minority interests			—
Profit attributable to shareholders			54,136
Segment assets	248,273	34,662	282,935
Investments in associated companies			6,609
Unallocated assets			258,905
Total assets			548,449
Segment liabilities	135,513	22,527	158,040
Unallocated liabilities			97,598
Total liabilities			255,638
Unallocated capital expenditure			23,403
Unallocated depreciation			2,188
Unallocated impairment charge			26,668
Other non-cash expenses	310	47	357
Unallocated non-cash expenses			97

## 2 Turnover, revenues and segment information (Continued)

### Secondary reporting format - geographical segment

The group is engaged in the design, sale and implementation of data networking systems and provision of related engineering services, and sale of goods in two main geographical areas, namely the PRC and Macau.

There are no sales or other transactions between the geographical segments.

	<b>Turnover 2002 HK\$'000</b>	<b>Segment result 2002 HK\$'000</b>	<b>Total assets 2002 HK\$'000</b>	<b>Capital expenditure 2002 HK\$'000</b>
The PRC	541,906	81,300	113,402	—
Macau	59,202	4,625	188,767	—
	<u>601,108</u>	85,925	302,169	—
Unallocated income		4,237		
Unallocated cost		(19,801)		
Operating profit		<u>70,361</u>		
Investments in associated companies			6,591	
Unallocated assets			<u>243,515</u>	
Total assets			<u>552,275</u>	
Unallocated capital expenditure				<u>5,743</u>

## 2 Turnover, revenues and segment information (Continued)

### Secondary reporting format - geographical segment (Continued)

	Turnover 2001 HK\$'000	Segment result 2001 HK\$'000	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
The PRC	541,603	99,247	85,388	—
Macau	5,312	1,789	197,547	—
	<u>546,915</u>	101,036	282,935	—
Unallocated income		11,773		
Unallocated cost		<u>(42,089)</u>		
Operating profit		<u>70,720</u>		
Investments in associated companies			6,609	
Unallocated assets			<u>258,905</u>	
Total assets			<u>548,449</u>	
Unallocated capital expenditure				<u>23,403</u>

### 3 Operating profit

Operating profit is stated after crediting and charging the following:

	Group	
	2002 HK\$'000	2001 HK\$'000
<b>Crediting</b>		
Net exchange gain	<b>1,654</b>	—
<b>Charging</b>		
Auditors' remuneration		
— current year	<b>1,217</b>	1,200
— under provision in previous year	—	235
Cost of inventories	<b>418,716</b>	394,417
Depreciation of fixed assets	<b>2,210</b>	2,188
Impairment of investments in non-trading securities	<b>1,674</b>	—
Loss on disposal of fixed assets	<b>2</b>	97
Net exchange loss	—	1,163
Operating leases in respect of land and buildings	<b>2,674</b>	1,932
Provision for doubtful debts	—	357
Provision for advance to an associated company	<b>2,996</b>	—
Research and development costs	<b>159</b>	146
Retirement benefit costs (Note 10)	<b>653</b>	502
Staff costs (including directors' emoluments)	<b>31,659</b>	27,023

### 4 Finance cost

	2002 HK\$'000	2001 HK\$'000
Interest on convertible bonds	<b>173</b>	—



## 5 Taxation

No provision for Hong Kong profits tax has been made in the accounts as the group does not have any estimated assessable Hong Kong profits for the year. Macau complementary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau. The PRC profits tax has been calculated at 33% on the estimated assessable profits of group companies operating in the PRC.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>Group</b>	
	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
Hong Kong profits tax	—	—
Macau complementary profits tax	<b>10,274</b>	14,429
PRC profits tax	<b>283</b>	—
	<b>10,557</b>	<b>14,429</b>

There was no material unprovided deferred taxation for the year (2001: Nil).

## 6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of HK\$15,992,000 (2001: HK\$12,922,000).

## 7 Dividends

	2002 HK\$'000	2001 HK\$'000
Interim, paid for 2001/2002, of HK\$0.01 (2000/2001: nil) per ordinary share	6,080	—
Final, proposed for 2001/2002, of HK\$0.005 (2000/2001: HK\$0.02) per ordinary share	3,040	12,160
	<u>9,120</u>	<u>12,160</u>

Note:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 30th June 2000 and 2001 were HK\$9,225,000 and HK\$12,160,000 respectively. Under the group's new accounting policy as described in note 1(r), these have been written back against opening reserves as at 1st July 2000 and 2001 in note 20 and are now charged in the periods in which they were declared.
- (b) At a meeting held on 16th September 2002 the directors declared a final dividend of HK\$0.005 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 30th June 2002.

## 8 Earnings per share

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK\$56,992,000 (2001(restated): HK\$54,136,000) and the weighted average of shares 607,984,000 (2001: 612,184,331 shares) in issue during the year.

The calculation of fully diluted earnings per share is based on adjusted profit of HK\$57,137,753 on the assumption that the weighted average of all convertible bonds in issue and all share options outstanding, except for share options having anti-dilutive effect, had been converted and had saved finance costs thereon and the weighted average of 612,211,940 shares issued and issuable.

Fully diluted earnings per share for the year ended 30th June 2001 was not disclosed as there were no dilutive potential ordinary shares.

## 9 Directors' and senior management's emoluments

### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	819	890
Other emoluments		
— basic salaries and allowances	6,823	7,094
— bonuses	6,200	8,000
— pensions	27	18
	<u>13,869</u>	<u>16,002</u>

Directors' fees disclosed above include HK\$240,000 (2001: HK\$240,000) paid to independent non-executive directors.

The executive directors received individual emoluments for the year ended 30th June 2002 of approximately HK\$7,441,000 (2001: HK\$8,394,000), HK\$2,551,000 (2001: HK\$2,665,000), HK\$1,661,000 (2001: HK\$1,839,000), HK\$1,381,000 (2001: HK\$1,558,000) and HK\$595,000 (2001: HK\$1,306,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 30th June 2002 and 2001.

## 9 Directors' and senior management's emoluments (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include four directors (2001: five) whose emoluments are reflected in the analysis presented above. For the year ended 30th June 2002, the emoluments payable to the remaining one (2001: Nil) individual who was not a director is as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	561	—
Bonuses	395	—
	<u>956</u>	<u>—</u>

The emoluments fell within the following bands:

Emolument bands	Number of individual	
	2002	2001
Nil - HK\$1,000,000	1	—
	<u>1</u>	<u>—</u>

During the year ended 30th June 2002, no emoluments have been paid by the group to the directors or the five highest paid individuals as an inducement to join the group, or as compensation for loss of office.

## 10 Retirement benefit costs

The group did not provide retirement benefits for its employees in Hong Kong before 1st December 2000. With effect from 1st December 2000, a mandatory provident fund scheme has been set up for all the eligible employees of the group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the group and employees are calculated as a percentage of the employees' basic salaries.

The employees of the representative offices of the group operating in the PRC participated in defined contribution retirement schemes in accordance with local government requirements. The contributions to the fund are calculated as a percentage of employees' basic salaries.

As at 30th June 2002, 75 (2001: 34) employees based in Macau had completed the required number of years of service under the Macau Employment Relationship Decree ("Decree") and are eligible for long service payments on termination of their employment. The group is only liable to make such payments where the termination meets the required circumstances specified in the Decree. If the termination of all these employees meets the circumstances required by the Decree, the group's maximum liabilities as at 30th June 2002 in this regard would be approximately HK\$9,987,000 (2001: HK\$5,598,000). No provision has been made for this amount in the accounts as it is not expected to be paid in the foreseeable future.



## 11 Fixed assets

	Group				Total HK\$'000
	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Demonstration equipment HK\$'000	
<b>Cost</b>					
At 1st July 2001	2,616	5,285	1,488	1,349	10,738
Exchange adjustments	—	25	8	—	33
Additions	105	663	867	52	1,687
Disposals	(77)	(201)	(30)	—	(308)
	<u>2,644</u>	<u>5,772</u>	<u>2,333</u>	<u>1,401</u>	<u>12,150</u>
At 30th June 2002	2,644	5,772	2,333	1,401	12,150
<b>Accumulated depreciation</b>					
At 1st July 2001	1,707	3,473	533	1,292	7,005
Exchange adjustments	—	11	3	—	14
Charge for the year	517	1,346	279	68	2,210
Disposals	(78)	(199)	(29)	—	(306)
	<u>2,146</u>	<u>4,631</u>	<u>786</u>	<u>1,360</u>	<u>8,923</u>
At 30th June 2002	2,146	4,631	786	1,360	8,923
<b>Net book value</b>					
At 30th June 2002	<u>498</u>	<u>1,141</u>	<u>1,547</u>	<u>41</u>	<u>3,227</u>
At 30th June 2001	<u>909</u>	<u>1,812</u>	<u>955</u>	<u>57</u>	<u>3,733</u>

## 12 Investments in subsidiaries - Company

	2002 HK\$'000	2001 HK\$'000
Investments, at cost (Note (a))	73,918	73,918
Amounts due from subsidiaries (Note (b))	141,517	146,678
Amount due to a subsidiary (Note (b))	(1,508)	(1,498)
	<b>213,927</b>	<b>219,098</b>

(a) The following is a list of the subsidiaries at 30th June 2002:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ registered capital	Interest held	
				Directly	Indirectly
Guangzhou Vodatel Development Limited ("GVDL")	The PRC	Design, sale and implementation of data networking systems and the provision of related engineering services/ the PRC	RMB3,000,000	—	54%
Guangzhou Information Communication Co., Ltd. ("GZIC")	The PRC	Provision of internet related data services/ the PRC	RMB900,000	—	28% (Note)
Mega Datatech Limited	Macau	Computer software and hardware integration/Macau	MOP100,000	—	100%
Vodatel China Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel China Limited	British Virgin Islands	Investment holding/ the PRC	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Data Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

## 12 Investments in subsidiaries - Company (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ registered capital	Interest held	
				Directly	Indirectly
Vodatel Holdings Limited	British Virgin Islands	Investment holding and design, sale and implementation of data networking systems and the provision of related engineering services/Macau	10,000 ordinary shares of US\$1 each	100%	—
Vodatel Hong Kong Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Information Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

**12 Investments in subsidiaries - Company (Continued)**

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/registered capital	Interest held	
				Directly	Indirectly
Vodatel International Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Networks Limited	British Virgin Islands	Investment holding and provision of supporting services to group companies/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Systems (HK) Limited	British Virgin Islands	Provision of warehouse services/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Systems Inc.	British Virgin Islands	Design, sale and implementation of data networking systems and the provision of related engineering Services/Macau	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Systems (Macau) Limited	British Virgin Islands	Dormant	1,000 ordinary shares of US\$1 each	—	100%
Worldtown International Limited	British Virgin Islands	Owner of intellectual property rights and trademarks/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

Note:

GVDL holds 51.82% interest directly in GZIC.

- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

### 13 Investments in associated companies

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets (Note (a))	<b>4,023</b>	4,899
Advances to associated companies (Note (b))	<b>5,564</b>	1,710
	<b>9,587</b>	6,609
Less: provision for advance to an associated company (Note (b))	<b>(2,996)</b>	—
	<b>6,591</b>	6,609
Unlisted shares, at cost	<b>33,107</b>	33,107



### 13 Investments in associated companies (Continued)

(a) The following is a list of the associated companies at 30th June 2002:

Name	Place of incorporation/ establishment and business	Principal activities	Particulars of issued/registered capital	Interest held indirectly
Crossland Business Solution Limited	Hong Kong	Software production and provision of software consultancy services	100 ordinary shares of HK\$1 each	40%
Guangzhou Thinker Vodatel Development Company Limited ("GZ Thinker")	The PRC	Wireless data communications and internet related products research and development	US\$3,000,000	49%
Oriental Skill Limited	Hong Kong	Provision of hardware consultancy services	10 ordinary shares of HK\$1 each	40%
VcShare Online Limited	Hong Kong	Provision of software consultancy services	1,000,000 ordinary shares of HK\$1 each	40%
Vodatel Crossland Technology Holdings Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	40%

(b) Advances to associated companies are unsecured, interest-free and have no fixed terms of repayment.

Included in the advances to associated companies is an amount of HK\$2,568,000 advanced to GZ Thinker for a further acquisition of an 11% equity interest in GZ Thinker by the group for which approval is pending as at 30th June 2002. Subsequent to the year end, approval has been granted and GZ Thinker has become a subsidiary of the company. The remaining advance of HK\$2,996,000 was made to another associated company, which was fully provided for at the year end.

## 14 Non-trading securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Equity securities, at market value		
Listed in Hong Kong	10,320	10,770
Listed outside Hong Kong	1,092	3,135
	11,412	13,905
Unlisted	6,112	2,635
Less: impairment charge	(1,674)	—
	15,850	16,540
Convertible notes, unlisted (Note)	600	—
	16,450	16,540

Note:

The convertible notes bear interest at 1% per annum on the principal amount of the notes outstanding from time to time payable half yearly in arrears on 30th September and 31st March in each year. The company shall have the right to convert the whole (but not part) of the principal amount of the notes into fully-paid ordinary shares of the notes issuer or the substituted listing company at initial conversion price specified in the subscription agreement dated 28th March 2002.

## 15 Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
Networking equipment	114,141	88,072
Less: provision	(3,329)	(1,942)
	110,812	86,130

At 30th June 2002, there were no inventories (2001: Nil) carried at net realisable value.

## 16 Trade and bills receivables

At 30th June 2002, the ageing analysis of the trade and bills receivables were as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 - 3 months	66,441	77,812
4 - 6 months	48,797	29,038
7 - 12 months	54,752	52,965
Over 12 months	43,309	58,932
	<b>213,299</b>	218,747
Less: provision	<b>(21,942)</b>	(21,942)
	<b>191,357</b>	196,805

The credit terms granted to customers vary and are generally the result of negotiations between the individual customers and the group. Customers are generally required to pay at various intervals over the life of the projects.

## 17 Trade and bills payables

At 30th June 2002, the ageing analysis of the trade and bills payables were as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 - 3 months	52,680	69,923
4 - 6 months	18,671	23,828
7 - 12 months	1,407	39,553
Over 12 months	25,707	24,736
	<b>98,465</b>	158,040

## 18 Convertible bonds

	2002 HK\$'000	2001 HK\$'000
Convertible bonds	27,230	—
Less: current portion	(17,505)	—
	<u>9,725</u>	<u>—</u>

In February 2002, the company issued a total of US\$3,500,000 convertible bonds ("CB") to a supplier of the group. The CB bear interest at 1.90875% per annum on the principal amount of the CB outstanding from time to time payable annually in arrears. The CB comprised of three tranches:

- (a) For CB1 of US\$1,500,000, the holder and the company shall each have the right, at the option of such holder or the company, at any time between 28th February 2002 and 28th February 2003 inclusive, convert CB1 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.
- (b) For CB2 of US\$750,000, the holder shall have the right, at the option of such holder, at any time between 28th February 2002 and 28th February 2003 inclusive, convert CB2 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.
- (c) For CB3 of US\$1,250,000, the holder shall have the right, at the option of such holder, at any time between 28th February 2002 and 28th February 2004 inclusive, convert CB3 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.

Unless previously converted, the company shall redeem the CB at a value equal to the aggregate of (i) the principal amount outstanding under the CB; and (ii) all interest accrued thereon up to and including the date of actual payment on 28th February 2003 for CB1 and CB2 and on 28th February 2004 for CB3.

## 19 Share capital

	Number of shares	HK\$'000
Authorised		
Ordinary shares of HK\$0.10 each		
At 30th June 2001 and 30th June 2002	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
Ordinary shares of HK\$0.10 each		
At 30th June 2000	615,000,000	61,500
Repurchase of shares	<u>(7,016,000)</u>	<u>(702)</u>
At 30th June 2001 and 30th June 2002	<u>607,984,000</u>	<u>60,798</u>

Under a share option scheme approved by the shareholders, the directors of the company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the share option scheme).

On 16th August 2000, share options to subscribe for 1,450,000 and 4,466,000 shares were granted to the directors of the company and certain employees of the group respectively. None of the share options granted have been exercised as at 30th June 2002.

On 1st August 2001, share options to subscribe for 2,088,000 and 11,378,000 shares were granted to certain directors of the company and certain employees of the group respectively. None of the share options granted have been exercised as at 30th June 2002.

Details of the outstanding share options which have been granted to the directors of the company and certain employees of the group are as follows:

Date of share options granted	Number of share options outstanding as at 1st July 2001	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options outstanding as at 30th June 2002	Exercise period	Exercise price per share HK\$
16th August 2000	5,916,000	—	(290,000)	5,626,000	16th February 2001 - 15th February 2004	1.19
1st August 2001	—	13,466,000	—	13,466,000	1st February 2002 - 31st January 2005	0.79
	<u>5,916,000</u>	<u>13,466,000</u>	<u>(290,000)</u>	<u>19,092,000</u>		



## 20 Reserves

	Group						Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000 (Note)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At 1st July 2000 (as previously reported)	92,364	—	1,399	35,549	—	44,622	173,934
Effect of adopting SSAP 9 (revised) (Note 1(r))	—	—	—	—	—	9,225	9,225
At 1st July 2000 (restated)	92,364	—	1,399	35,549	—	53,847	183,159
Effect of adopting SSAP 30 and SSAP 31 (Note 1(d))	—	—	—	—	—	26,668	26,668
Repurchase of shares	(5,774)	702	—	—	—	(702)	(5,774)
Deficit on revaluation of non-trading securities	—	—	(1,254)	—	—	—	(1,254)
Profit attributable to shareholders	—	—	—	—	—	54,136	54,136
1999/2000 Final dividend paid	—	—	—	—	—	(9,225)	(9,225)
Goodwill written off on acquisition of subsidiaries	—	—	—	—	—	(15,697)	(15,697)
At 30th June 2001	86,590	702	145	35,549	—	109,027	232,013
Representing:							
2000/2001 Final dividend proposed							12,160
Reserves at 30th June 2001							219,853
							232,013
Company and subsidiaries	86,590	702	145	35,549	—	111,625	234,611
Associated companies	—	—	—	—	—	(2,598)	(2,598)
At 30th June 2001	86,590	702	145	35,549	—	109,027	232,013

**20 Reserves (Continued)**

	Group						Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000 (Note)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At 1st July 2001 (as previously reported)	86,590	702	145	35,549	—	96,867	219,853
Effect of adopting SSAP 9 (revised) (Note 1(r))	—	—	—	—	—	12,160	12,160
At 1st July 2001 (restated)	86,590	702	145	35,549	—	109,027	232,013
Deficit on revaluation of non-trading securities	—	—	(2,517)	—	—	—	(2,517)
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	—	—	—	—	(10)	—	(10)
Profit attributable to shareholders	—	—	—	—	—	56,992	56,992
2000/2001 Final dividend paid	—	—	—	—	—	(12,160)	(12,160)
2001/2002 Interim dividend paid	—	—	—	—	—	(6,080)	(6,080)
At 30th June 2002	<u>86,590</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(10)</u>	<u>147,779</u>	<u>268,238</u>
Representing:							
2001/2002 Final dividend proposed							3,040
Reserves at 30th June 2002							<u>265,198</u>
							<u>268,238</u>
Company and subsidiaries	86,590	702	(2,372)	35,549	(10)	151,264	271,723
Associated companies	—	—	—	—	—	(3,485)	(3,485)
At 30th June 2002	<u>86,590</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(10)</u>	<u>147,779</u>	<u>268,238</u>

Note:

The merger reserve of the group includes the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the company in exchange thereof and also an existing balance on the share premium account of a subsidiary.

## 20 Reserves (Continued)

	Company				
	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (a))	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2000 (as previously reported)	92,364	73,718	—	3,075	169,157
Effect of adopting SSAP 9 (revised) (Note 1(r))	—	—	—	9,225	9,225
At 1st July 2000 (restated)	92,364	73,718	—	12,300	178,382
Repurchase of shares (5,774)	(5,774)	—	702	(702)	(5,774)
Profit attributable to shareholders	—	—	—	12,922	12,922
1999/2000 Final dividend paid	—	—	—	(9,225)	(9,225)
At 30th June 2001	<u>86,590</u>	<u>73,718</u>	<u>702</u>	<u>15,295</u>	<u>176,305</u>
Representing:					
2000/2001 Final dividend proposed					12,160
Reserves at 30th June 2001					<u>164,145</u>
					<u>176,305</u>

**20 Reserves (Continued)**

	Company				Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (a))	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	
At 1st July 2001 (as previously reported)	86,590	73,718	702	3,135	164,145
Effect of adopting SSAP 9 (revised) (Note 1(r))	—	—	—	12,160	12,160
At 1st July 2001 (restated)	86,590	73,718	702	15,295	176,305
2000/2001 Final dividend paid	—	—	—	(12,160)	(12,160)
Profit attributable to shareholders	—	—	—	15,992	15,992
2001/2002 Interim dividend paid	—	—	—	(6,080)	(6,080)
At 30th June 2002	<u>86,590</u>	<u>73,718</u>	<u>702</u>	<u>13,047</u>	<u>174,057</u>
Representing:					
2001/2002 Final dividend proposed					3,040
Reserves at 30th June 2002					<u>171,017</u>
					<u>174,057</u>

**Notes:**

- (a) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the company's shares issued for the acquisition at the time of the group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.
- (b) Distributable reserves of the company at 30th June 2002 amounted to HK\$86,765,000 (2001 (restated): HK\$89,013,000).

## 21 Notes to the consolidated cash flow statement

### (a) Reconciliation of profit before taxation to cash (outflow)/inflow from operating activities

	Group	
	2002 HK\$'000	2001 HK\$'000 (restated)
Profit before taxation	<b>69,312</b>	68,565
Share of losses of associated companies	<b>876</b>	2,155
Depreciation	<b>2,210</b>	2,188
Loss on disposal of fixed assets	<b>2</b>	97
Impairment of investments in non-trading securities	<b>1,674</b>	—
Impairment of goodwill (note 1(d))	<b>—</b>	26,668
(Increase)/decrease in amount due from an associated company	<b>(858)</b>	913
Increase in inventories	<b>(24,682)</b>	(48,978)
Decrease in trade and bills receivables and other receivables, deposits and prepayments	<b>5,947</b>	21,396
(Decrease)/increase in trade and bills payables	<b>(59,575)</b>	23,422
Decrease in other payables and accruals	<b>(10,877)</b>	(30,060)
Decrease in amount due to directors	<b>—</b>	(1,797)
Interest expenses	<b>173</b>	—
Interest income	<b>(3,588)</b>	(11,087)
Dividend income	<b>(649)</b>	(686)
Exchange differences	<b>29</b>	—
Cash (outflow)/inflow from operating activities	<b>(20,006)</b>	52,796

## 21 Notes to the consolidated cash flow statement (Continued)

### (b) Analysis of changes in financing during the year

	Share capital including share premium		Pledged time deposits		Convertible bonds		Bank loan, secured		Minority interests	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Balance at the beginning of the year	147,388	153,864	(2,137)	(2,808)	—	—	204	—	764	—
Repurchase of shares	—	(6,476)	—	—	—	—	—	—	—	—
Minority interests in share of profits and exchange reserves	—	—	—	—	—	—	—	—	1,866	764
Cash inflow/(outflow) from financing	—	—	2,137	671	27,230	—	(204)	—	—	—
Balance at the end of the year	147,388	147,388	—	(2,137)	27,230	—	—	204	2,630	764

### (c) Purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Fixed assets	—	608
Other investments	—	—
Inventories	—	3,100
Trade and bills receivables	—	7,135
Other receivables, deposits and prepayments	—	4,994
Bank balances and cash	—	5,169
Due to a director	—	(1,585)
Trade and bills payables	—	(7,115)
Other payables and accruals	—	(10,491)
Bank overdrafts	—	(70)
Loans and finance leases	—	(204)
Minority shareholders' interests	—	(764)
	—	777
Goodwill	—	15,697
Carrying value of interest in an associated company	—	(317)
	—	16,157
Satisfied by		
Cash	—	16,157



## 21 Notes to the consolidated cash flow statement (Continued)

### (d) Analysis of the net outflow in respect of the purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	16,157
Bank balances and cash in hand acquired	—	(5,169)
Bank overdrafts	—	70
Outstanding purchase consideration payable	—	(14,703)
Net cash outflow in respect of the purchase of subsidiaries	—	(3,645)

## 22 Banking facilities

At 30th June 2002, the group's banking facilities of HK\$407,000,000 (2001: HK\$193,080,000) are secured by the following:

- (a) corporate guarantee given by certain subsidiaries amounting to HK\$327,000,000 (2001: HK\$147,200,000);
- (b) corporate guarantee given by the company amounting to HK\$407,000,000 (2001: HK\$193,080,000); and
- (c) cross corporate guarantees between the company and certain subsidiaries amounting to HK\$80,000,000 (2001: HK\$50,000,000).

Subsequent to 30th June 2002, banking facilities given by a bank have been revised from HK\$83,000,000 to HK\$50,000,000. Corporate guarantees given by the company and certain subsidiaries of the company amounting to HK\$83,000,000 respectively have been revised to HK\$50,000,000 each accordingly.

**23 Bank loan, secured**

	<b>2002</b> <b>HK\$'000</b>	<b>2001</b> <b>HK\$'000</b>
Bank loan, secured	—	204
Less: current portion	—	(59)
	<u>—</u>	<u>145</u>

The bank loan is wholly repayable within five years.

At 30th June 2002, the group's bank loans and overdrafts were repayable as follows:

	<b>2002</b> <b>HK\$'000</b>	<b>2001</b> <b>HK\$'000</b>
Within one year	—	59
In the second year	—	65
In the third to fifth year	—	80
	<u>—</u>	<u>204</u>

**24 Contingent liabilities**

At 30th June 2002, the company has provided a corporate guarantee of HK\$407,000,000 (2001: HK\$190,943,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries.

## 25 Commitments

### (a) Capital commitments

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Contracted but not provided for	—	51
Authorised but not contracted for	<b>1,000</b>	1,456
	<b>1,000</b>	1,507

### (b) Operating lease commitments

At 30th June 2002, the group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Within one year	<b>927</b>	1,844
In the second to fifth year inclusive	<b>445</b>	740
After the fifth year	<b>88</b>	158
	<b>1,460</b>	2,742

## 26 Related party transactions

Significant related party transactions, which were carried out in the normal course of the group's business are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Business development fee payable to GVDL (Note (a))	—	1,393
Sale of goods to Zetronic Comunicações Lda (Note (b))	<b>289</b>	869
Rental charges payable to a director of the company (Note (c))	<b>60</b>	60
Network service fee payable to an associated company, Crossland Business Solution Limited ("CBS") (Note (d))	<b>400</b>	825

- (a) GVDL acts as a representative office for the group in Guangzhou and it charges all expenses incurred on behalf of the group with an additional 2% markup as its service fee. Since GVDL has become a subsidiary of the group on 15th June 2001, such service fee has been eliminated in the consolidated accounts for the year ended 30th June 2002.
- (b) Zetronic Comunicações Lda is a company incorporated in Macau and owned by Mr. José Manuel dos Santos. In the opinion of the directors of the company, the transactions were carried out in the ordinary course of business of the group and on normal commercial terms.
- (c) The group leased its office premise from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$5,000 commencing from 1st October 1999.

## 26 Related party transactions (Continued)

- (d) This represents network service fee payable which is charged at terms mutually agreed between the group and CBS. In the opinion of the directors of the company, the transactions were carried out in the ordinary course of business of the group and on normal commercial terms.
- (e) At 30th June 2002, the group had unsecured advances to the following associated company:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Vodatel Crossland Technology Holdings Limited ("VCT") (Note)	<b><u>2,996</u></b>	<u>1,710</u>

Note:

The advance to VCT is unsecured, interest-free and has no fixed terms of repayment. The other shareholder of VCT, a third party, has also advanced to VCT an amount exceeding the proportion of its share of equity interest in VCT. The group has fully provided for the advance to VCT as at 30th June 2002.

## 27 Approval of accounts

The accounts were approved by the board of directors on 16th September 2002